

# CRS Report for Congress

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## **Latin America and the Caribbean: Issues for the 109<sup>th</sup> Congress**

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Mark P. Sullivan, Coordinator,  
J. F. Hornbeck, Clare Ribando, Lenore Sek,  
K. Larry Storrs, Maureen Taft-Morales,  
and Connie Veillette  
Foreign Affairs, Defense, and Trade Division

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# Latin America and the Caribbean: Issues for the 109<sup>th</sup> Congress

## Summary

The Latin America and Caribbean region has made enormous strides over the past two decades in terms of political and economic development. While the region overall experienced an economic setback in 2002-2003, by the end of 2004, it had rebounded with an estimated growth rate of 5.5% for the year, surpassing even the most optimistic predictions. Nevertheless, several nations face considerable challenges that could threaten political stability, including persistent poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, and increasing crime.

Legislative and oversight attention to Latin America and the Caribbean in the 109<sup>th</sup> Congress will likely focus on continued counter-narcotics efforts; potential consideration of several free trade agreements; threats to democracy; efforts to foster political change in Cuba; and cooperation on border security, migration and anti-terrorism measures.

Since 2000, the Andean Counterdrug Initiative (ACI) has been the primary U.S. program supporting the Colombian government's efforts to combat drug trafficking and terrorist activity perpetrated by guerrilla and paramilitary groups. The 109<sup>th</sup> Congress will likely review ACI progress in response to the Administration's request to continue such assistance in FY2006.

In the trade arena, Congress could potentially consider legislation to implement the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) completed in 2004, as well as two additional free trade agreements currently being negotiated with Panama and with Colombia, Ecuador, and Peru. Congressional consideration of the DR-CAFTA could prove controversial because of opposition from labor advocates and some industry groups.

With regard to democracy, Congress will likely focus on continued support to Haiti, which is suffering continued political instability despite the presence of a United Nations peacekeeping force. Venezuela — a major supplier of oil to the United States — will also remain a congressional concern because of fears among some observers that President Hugo Chavez will use his political power to push toward authoritarian rule. With regard to U.S. policy toward communist Cuba, Congress will likely continue to debate economic sanctions, especially restrictions on travel and on financing for U.S. agricultural exports to Cuba.

Congress will likely maintain an active interest in neighboring Mexico, focusing especially on border security and migration issues.

This report, which will be updated bimonthly, provides an overview of issues in U.S. relations with Latin America and the Caribbean, focusing especially on the role of Congress and congressional concerns. For further information, see the CRS products listed after each topic.

## Contents

|  |    |
|--|----|
| Conditions in the Region .....                       | 1  |
| U.S. Policy Overview .....                           | 2  |
| Regional Issues .....                                | 5  |
| U.S. Foreign Assistance .....                        | 5  |
| Colombia and the Andean Counterdrug Initiative ..... | 6  |
| Free Trade Agreements .....                          | 8  |
| Dominican Republic-Central America-United States     |    |
| Free Trade Agreement (DR-CAFTA) .....                | 8  |
| U.S.-Panama FTA .....                                | 9  |
| U.S.-Andean FTA .....                                | 9  |
| Free Trade Area of the Americas .....                | 9  |
| Terrorism Issues .....                               | 10 |
| Gangs in Central America .....                       | 12 |
| AIDS in the Caribbean and Central America .....      | 13 |
| Afro-Latinos .....                                   | 14 |
| Country Issues .....                                 | 16 |
| Argentina .....                                      | 16 |
| Bolivia .....  | 17 |
| Brazil .....   | 18 |
| Cuba .....   | 20 |
| Dominican Republic .....                             | 22 |
| Ecuador .....  | 22 |
| El Salvador .....                                    | 23 |
| Guatemala .....                                      | 24 |
| Haiti .....  | 26 |
| Honduras .....                                       | 27 |
| Mexico .....   | 28 |
| Nicaragua .....                                      | 30 |
| Panama .....   | 32 |
| Peru .....   | 33 |
| Venezuela .....                                      | 35 |

# Latin America and the Caribbean: Issues for the 109<sup>th</sup> Congress

## Conditions in the Region

The Latin America and Caribbean region has made enormous strides over the past two decades in political development, with all countries but Cuba having regular free and fair elections for head of state. Despite this democratic progress, several nations face considerable challenges that could threaten political stability, including persistent poverty, violent guerrilla conflicts, autocratic leaders, drug trafficking, and increasing crime.

While the region overall experienced a gross domestic product (GDP) decline of 0.6% in 2002 and only a modest growth rate of 1.5% in 2003, by the end of 2004, the region had rebounded with an estimated growth rate of 5.5% for the year, surpassing even the most optimistic predictions. Every country in the region, with the exception of Haiti, experienced positive economic growth, and even per capita income for the region as a whole increased by an estimated 4% for the year.<sup>1</sup> Countries that had suffered the deepest recessions in recent years — Argentina, Uruguay, and Venezuela — all experienced significant economic growth in 2004.

The Andean region still faces considerable challenges. Colombia continues to be threatened by drug trafficking organizations and by two left-wing guerrilla groups and a rightist paramilitary group, all of which, combined, have been responsible for thousands of deaths each year. Bolivia has experienced political unrest result in the last few years, including the resignation of its president in 2003. Current President Carlos Mesa faces the challenge of governing in a politically fractured society, with a highly mobilized indigenous community, continuing street protests, and discord over the country's natural gas exports. Ecuadorian President Lucio Gutierrez was removed from office in April 2005 following weeks of popular protests related to his replacement of judges. Current President Alfredo Palacios, a political independent, will also face significant challenges in governing within Ecuador's politically fragmented and unstable political environment. In Peru, President Alejandro Toledo remains extremely unpopular, but the economy has continued to grow at high levels. Venezuela under President Hugo Chávez has been plagued by several years of political polarization, although Chávez's rule was strengthened after he survived a recall referendum in August 2004, and windfall oil profits have bolstered his government's revenue and economic growth.

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<sup>1</sup> U.N. Economic Commission for Latin America and the Caribbean (ECLAC), "Preliminary Overview of the Economies of Latin America and the Caribbean," December 15, 2004.

In Central America, countries such as El Salvador, Honduras, and Nicaragua emerged from the turbulent 1980s and 1990s with democratic institutions more firmly entrenched, yet violent crime is a major problem in all countries. Honduras and Nicaragua are among the poorest countries in the hemisphere. While Guatemala has made significant progress in improving the government's human rights policy, significant problems remain. Anti-corruption efforts have gained momentum in the region as several Central American governments — Costa Rica, Guatemala, Nicaragua, and Panama — have taken action to either prosecute or investigate former leaders on corruption charges. In Nicaragua, tensions among current President Enrique Bolaños, the Sandinista party, and allies of former President Arnoldo Aleman are threatening the country's political stability.

In the Caribbean, Haiti — the hemisphere's poorest nation — continues to be plagued by violence and political instability. In the aftermath of President Aristide's departure in February 2004, Haiti's interim government is being supported by a U.N. Stabilization Mission attempting to ensure a secure and stable environment and to restore the rule of law. The goal of new elections in 2005 could prove illusive amid continued violence. Cuba remains a hardline communist state under Fidel Castro with a human rights situation that has deteriorated significantly since 2003. Several Caribbean nations were hard hit by several devastating storms in 2004, including Haiti, Grenada, Jamaica, and the Bahamas. The AIDS epidemic in the Caribbean, where infection rates are among the highest outside of sub-Saharan Africa, has also been a major challenge for the region.

## **U.S. Policy Overview**

Legislative and oversight attention to Latin America and the Caribbean in the 109<sup>th</sup> Congress will likely focus on continued counter-narcotics efforts, especially in the Andean region; trade issues, including potential consideration of several free trade agreements (FTAs); threats to democracy in such nations as Haiti and Venezuela; efforts to foster political change in Cuba; and cooperation on border security, migration and anti-terrorism measures.

Since 2000, the Andean Counterdrug Initiative (ACI) has been the primary U.S. program supporting the Colombian government's efforts to combat drug trafficking and terrorist activity perpetrated by guerrilla and paramilitary groups. The ACI has also provided interdiction and development support to six of Colombia's neighbors: Bolivia, Peru, Ecuador, Venezuela, Brazil, and Panama. The 109<sup>th</sup> Congress will likely review ACI progress in response to the Administration's request to continue funding in FY2006 at approximately the same levels as in previous years. Human rights and the environmental consequences of aerial fumigation will likely continue to be the issues of contention during congressional debate.

In the trade arena, Congress could potentially consider legislation to implement the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) completed in 2004 as well as two additional free trade agreements currently being negotiated with Panama and with Colombia, Ecuador, and Peru. The Bush Administration views such trade agreements as a way for the region to help create jobs, attract foreign investment, and advance good governance. Congressional consideration of the DR-CAFTA could prove controversial because of opposition

from labor advocates and some industry groups. Congress will also likely monitor negotiations for the region-wide Free Trade Area of the Americas (FTAA).

With regard to democracy, Congress will focus on continued support to Haiti, which is suffering continued political instability despite the presence of a United Nations peacekeeping force. Venezuela — a major supplier of oil to the United States — will also remain a congressional concern because of the belief among some observers that President Hugo Chavez will use his political power to push toward authoritarian rule. With regard to U.S. policy toward communist Cuba, Congress will likely continue to debate whether loosening or tightening the U.S. embargo will encourage political change.

Congress will likely maintain an active interest in neighboring Mexico, focusing especially on border security and migration issues. The issues for attention include proposals on identity documents and border fencing carried over from the intelligence reform passed last year, President Bush's January 2004 immigration reform and expected congressional proposals, and the social security totalization agreement with Mexico that would eliminate dual social security taxation and fill gaps in benefit protection for affected employees who work in both countries.

Congressional consideration of the annual foreign operations appropriations legislation that funds foreign aid is an important way for Congress to influence U.S. policy toward the region. U.S. foreign aid is largely administered by the U.S. Agency for International Development (USAID). The agency supports such activities as education, poverty reduction, health care, conservation, natural disaster mitigation and reconstruction, counter-narcotics and alternative development, and HIV/AIDS prevention and education. In addition, the United States provides food assistance, anti-terrorism assistance, and security assistance. In the aftermath of several devastating storms in 2004, the United States provided disaster and reconstruction assistance to several Caribbean nations. Overall U.S. foreign aid to the Latin America region amounted to \$862 million in FY2001, \$1.5 billion in FY2002, \$1.7 billion in FY2003; about \$1.6 billion in FY2004; an estimated \$1.8 billion in FY2005; and an FY2006 request for about \$1.7 billion. The Millennium Challenge Account (MCA), could also significantly increase U.S. aid to three Latin American nations — Bolivia, Honduras, and Nicaragua. In May 2005, the Millennium Challenge Corporation approved a five-year \$215 million compact for Honduras.

**CRS Products:**

CRS Report RL32160, *Caribbean Region: Issues in U.S. Relations*, by Mark P. Sullivan.

CRS Report RS22119, *China's Growing Interest in Latin America*, by Kerry Dumbaugh and Mark P. Sullivan.

CRS Report 98-684, *Latin America and the Caribbean: Fact Sheet on Leaders and Elections*, by Mark P. Sullivan and Barbara Salazar Torreon.

CRS Report RL32427, *Millennium Challenge Account: Implementation of a New U.S. Foreign Aid Initiative*, by Larry Nowels.

CRS Report RS22095, *Organization of American States: A Primer*, by Clare Ribando.

CRS Report RS21700, *Special Summit of the Americas — Monterrey, Mexico, January 2004: Background and Objectives*, by Clare Ribando.

CRS Report RL32487, *U.S. Foreign Assistance to Latin America and the Caribbean*, coordinated by Connie Veillette.



## Regional Issues

### U.S. Foreign Assistance

The United States maintains a variety of foreign assistance programs in Latin America and the Caribbean, including security assistance, counternarcotics, economic development, and trade capacity building programs. Aid to the region increased during the 1960s with the Alliance for Progress and during the 1980s with aid to Central America. Since 2000, aid levels have again increased, especially in the Andean region as the focus has shifted from Cold War issues to counternarcotics and security assistance. Current aid levels to Latin America and the Caribbean comprise about 9% of the worldwide aid budget, representing an increase over levels ten years ago of 8.2%. Current aid levels to the region could increase further as the Millennium Challenge Account is implemented.

The annual Foreign Operations Appropriations bills have been the vehicles by which Congress provides funding for, and sets conditions on foreign assistance programs. On November 18, 2004, Congress approved the conference report to the FY2005 omnibus appropriations measure, which included funding for foreign operations (Division D of P.L. 108-447). For FY2005, U.S. assistance to Latin America and the Caribbean amounted to an estimated \$1.8 billion, the largest portion of which, \$947 million, was allocated to the Andean region. Mexico and Central America received \$311 million, while the Caribbean received \$370 million, largely reflecting assistance for hurricane and flood damage. Brazil and the Southern Cone of South America received an estimated \$52 million. The United States also maintains programs of a regional nature that totaled an estimated \$110 million in FY2005. For FY2006, the Administration, requested about \$1.7 billion for the region.

Aid programs are designed to achieve a variety of goals, from poverty reduction to economic growth. Child Survival and Health (CSH) funds focus on combating infectious diseases and promoting child and maternal health. Development Assistance (DA) funds improvements in key areas — such as trade, agriculture, education, the environment, and democracy — in order to foster sustainable economic growth. For FY2006, the Administration proposes funding for a Transition Initiative (TI) that is designed to support stabilization efforts in fragile states. Funding for TI was formerly part of Development Assistance. Of the four nations chosen to receive TI funding, Haiti would receive \$30 million.

The Millennium Challenge Account (MCA) is a new initiative that provides sizable aid grants to a few low-income nations that have been determined, through a competitive process, to have the strongest policy reform records and where new investments are most likely to achieve their intended development results. In Latin America, Bolivia, Honduras, and Nicaragua were deemed eligible to participate, and on May 20, 2005, the Millennium Challenge Corporation (MCC) approved a five-year \$215 million compact with Honduras; other Latin American or Caribbean nations could be eligible to receive assistance in future years. U.S. support to counter the HIV/AIDS epidemic in the region is provided through programs administered by several U.S. agencies, although the U.S. Agency for International Development

(USAID) is the lead agency in the international fight against AIDS. The United States also provides contributions to multilateral efforts, such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

Economic Support Funds (ESF) assist countries of strategic importance to the United States and fund programs relating to justice sector reforms, local governance, anti-corruption, and respect for human rights. P.L. 480 food assistance is provided to countries facing emergency situations, such as natural disasters. Counternarcotics programs seek to assist countries to reduce drug production, to interdict trafficking, and to promote alternative crop development. Foreign Military Financing (FMF) provides grants to nations for the purchase of U.S. defense equipment, services, and training.

**CRS Products:**

CRS Report RL32487, *U.S. Foreign Assistance to Latin America and the Caribbean*, coordinated by Connie Veillette.

## **Colombia and the Andean Counterdrug Initiative**

The Andean Counterdrug Initiative (ACI) is the primary U.S. program that supports Plan Colombia, a six-year plan developed by the Colombian government in 1999 to combat drug trafficking and related guerrilla activity. Because Plan Colombia was developed as a six-year plan, the 109<sup>th</sup> Congress will most likely review its progress in response to an Administration request to continue U.S. assistance in FY2006. Such consideration could provoke a broader debate on the effectiveness of U.S. counternarcotics policy in the region. U.S. support for Plan Colombia began in 2000, when Congress passed legislation providing \$1.3 billion in interdiction and development assistance (P.L. 106-246) for Colombia and six regional neighbors: Bolivia, Peru, Ecuador, Venezuela, Brazil, and Panama. Funding for ACI from FY2000 through FY2005 totals approximately \$4.2 billion. For FY2006, the Administration has requested \$734.5 million, of which \$40 million would be for a new Critical Flight Safety Program, to upgrade aging aircraft.

Colombia produces about 80% of the world's supply of cocaine and increasing amounts of high quality heroin. Illegally armed groups of both the left and right are believed to participate in the drug trade. In addition to the basic debate over what role the United States should play in Colombia's struggle against drug trafficking and illegally armed groups, Congress has repeatedly expressed concern with a number of related issues. These include continuing allegations of human rights abuses; the expansion of U.S. assistance for counterterrorism and infrastructure protection; the health and environmental consequences of aerial fumigation of drug crops; the progress of alternative development to replace drug crops; the level of risk to U.S. personnel in Colombia, including the continued captivity of three American hostages by the Revolutionary Armed Forces of Colombia (FARC); and the current demobilization talks between the Colombian government and paramilitaries.

The 108<sup>th</sup> Congress considered assistance for Plan Colombia during the annual appropriations process, providing \$731 million for the region in the FY2005 Consolidated Appropriations Act (P.L. 108-447). The FY2005 Ronald W. Reagan National Defense Authorization Act (P.L. 108-375) raised the cap on military personnel allowed to be deployed in Colombia in support of Plan Colombia from 400 to 800 for military personnel, and from 400 to 600 for civilian contractors. Since FY2002, the Congress has authorized support for a unified campaign against narcotics trafficking and activities of organizations designated as terrorist organizations by the Department of State.

According to U.S. and Colombian officials, coca cultivation dropped 15% in Colombia during 2002 and 21% in 2003. This marked the first reduction in acreage devoted to coca cultivation in Colombia. Poppy cultivation was reduced by 24% in 2002 and 10% in 2003. It is believed that the Plan Colombia goal of spraying 50% of the country's coca crop by the end of 2005 may have been accomplished two years ahead of schedule. It should be noted that spraying does not prevent, although it may discourage, the replanting of illicit crops. The Office of National Drug Control Policy reported that there was no net reduction in coca cultivation in Colombia in 2004. Coca cultivation picked up slightly in Bolivia and decreased slightly in Peru in 2004.

Critics of U.S. policy contend that winning the war against drugs is a losing proposition as long as demand continues. They argue that despite the successes in eradicating illicit crops, the amount of drugs entering the United States has not declined, and prices have remained stable. Critics contend that U.S. policy should focus on the "demand side" in the United States. The Bush Administration has, however, recast the debate, arguing that the United States faces not only a threat from drug trafficking, but also from the increasing instability brought on by insurgent guerrilla organizations that are fueled by the drug trade. Supporters of U.S. policy argue that assistance to Colombia is necessary to help a democratic government besieged by drug-supported leftist and rightist armed groups. Assistance to Colombia's neighbors, according to supporters, is merited because of an increasing threat from the spillover of violence and drug production from Colombia.

While some critics agree with this assessment, they argue that U.S. assistance overemphasizes military and counter-drug assistance and provides inadequate support for protecting human rights and encouraging a peace process in Colombia. In particular, they express concern that current military assistance is strengthening the Colombian military which, they charge, has substantial ties to rightist paramilitary groups who have committed gross violations of human rights. Critics also assert that U.S. assistance is disproportionately targeted to eradication of crops and military training rather than to alternative development projects that could provide alternative livelihoods for growers who voluntarily give up illicit crops.

**CRS Products:**

CRS Report RL32774, *Plan Colombia: A Progress Report*, by Connie Veillette.

CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by Connie Veillette.

CRS Report RL32250, *Colombia: Issues for Congress*, by Connie Veillette.

## Free Trade Agreements

**Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA).** On August 5, 2004, the United States, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic signed the Dominican Republic-Central America-United States Free Trade Agreement, or the DR-CAFTA. The DR-CAFTA was negotiated as a regional agreement in which all parties would be subject to “the same set of obligations and commitments,” but with each country defining its own separate schedules for market access. It is a comprehensive and reciprocal trade agreement, which distinguishes it from the unilateral preferential trade arrangement between the United States and these countries as part of the Caribbean Basin Initiative (CBI), as amended. It defines detailed rules that would govern market access of goods, services trade, government procurement, intellectual property, investment, labor, and environment. Under the DR-CAFTA, more than 80% of U.S. consumer and industrial exports and over half of U.S. farm exports to Central America would become duty-free immediately. For the DR-CAFTA countries, 100% of non-textile and non-agricultural goods would enter the United States duty free immediately. Remaining trade would have tariffs phased out incrementally so that duty-free treatment is reached over a period of 5 to 20 years. Duty-free treatment would be delayed longest for the most sensitive (mostly agricultural) products.

The DR-CAFTA is not expected to have a large effect on the U.S. economy as a whole. Some sectors and groups will be affected more than others, especially agriculture, textiles, and apparel. Supporters see it as part of a policy foundation supportive of both improved intraregional trade, as well as long-term social, political, and economic development in an area of strategic importance to the United States. Opponents point to the need for better trade adjustment and capacity building policies to address the potential negative effects on certain import-competing sectors and their workers. In light of the region’s poor labor standards in some cases, the perception of inadequate labor laws, and widely accepted lax enforcement, opponents also argue that the labor provisions in the DR-CAFTA need strengthening. To date, El Salvador, Honduras, and Guatemala have ratified the agreement, but in the United States, implementing legislation has yet to be introduced. Once introduced, the committees of jurisdiction (House Ways and Means and Senate Finance) have 45 legislative days to report the bill, after which it would be automatically discharged. Each chamber would then have 15 legislative days to vote on the bill. The DR-CAFTA would enter into force if the United States and at least one other country pass implementing legislation into law.

**U.S.-Panama FTA.** On November 16, 2003, President Bush formally notified Congress of his intention to negotiate a bilateral FTA with Panama. Negotiations commenced in April 2004, with the eighth and most recent round occurring in Washington, D.C. January 31-February 6, 2005. Panama is a services-based economy, which distinguishes it, and the trade negotiations, from those of its Central American neighbors. After eight rounds, many issues have been resolved including most non-agricultural market access, maritime issues, services, labor, environment, and dispute settlement, among others. The United States also seeks to loosen Panamanian rules limiting activities of foreign professionals, and is focused intently on government procurement provisions given Panama's plan to invest some \$8 billion in the Panama Canal expansion project. Unlike the DR-CAFTA, there is little textile and apparel trade, and labor issues have so far been less controversial. The treatment of sensitive agricultural products and defining government procurement rules for the Panama Canal Authority remain among the more difficult issues to resolve. A ninth round of negotiations has not been scheduled, and there may be little activity until after the DR-CAFTA is addressed by Congress.

**U.S.-Andean FTA.** On May 18-19, 2004, the United States began free-trade negotiations with Colombia, Peru, and Ecuador. Bolivia has participated as an observer. Nine rounds have been held thus far, and at least two more rounds are expected through 2005. In a letter notifying Congress of the intent to begin negotiations, the U.S. Trade Representative said that an FTA would not only reduce barriers to trade between the Andean countries and the United States, but would “...also enhance our efforts to strengthen democracy and support for fundamental values in the region...”<sup>2</sup>

An FTA could eliminate tariff and nontariff barriers to trade among the countries, but there are some difficult issues in the on-going negotiations. The United States insists that disputes involving U.S. investments in Ecuador and Peru be resolved before reaching an FTA. It also wants the elimination of agricultural trade barriers such as the price band mechanism, which controls the price of imports through fluctuating tariffs. U.S. labor groups are protesting against the worker rights records of Ecuador and Colombia. In general, the Andean countries want a long-term commitment that they will be able to export duty-free to the U.S. market, since their current trade preferences expire at the end of 2006. They are also seeking protections for “traditional knowledge” under provisions on intellectual property rights and easier entry into the United States for business people.

**Free Trade Area of the Americas.** The proposed Free Trade Area of the Americas (FTAA) was originally conceived ten years ago as a regional (presumably WTO-plus) trade agreement that would include 34 nations of the Western Hemisphere. Since then, three drafts of the agreement have been released, but the original January 2005 date for signing it has passed. At the center of the delay are deep differences between the United States and Brazil, the co-chairs of the Trade Negotiating Committee, which have competing visions over how the FTAA should operate. The two are charged with defining the framework under which the FTAA

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<sup>2</sup> Office of the USTR. USTR Notifies Congress of Intent to Initiate Free Trade Talks with Andean Countries. November 18, 2003. Available at [<http://www.ustr.gov>].

negotiations can continue. At the November 2003 Miami Ministerial, they agreed on a two-tier approach that would include a set of “common rights and obligations” to which all countries would agree, augmented by plurilateral arrangements for those countries that would like to make deeper reciprocal commitments. To date, the United States and Brazil have been unable to define this two-tier concept, and the United States has rebuffed Brazil’s offer to move ahead with bilateral market access talks with the MERCOSUR (Southern Common Market) countries (Brazil, Argentina, Uruguay, and Paraguay). In the meantime, both countries are courting other Latin American countries to join them in sub-regional trade pacts. Until Brazil and the United States come to some agreement over how to proceed, it appears that the region will continue to follow a path of integration based on bilateral and sub-regional trade arrangements, which most economists argue is far inferior to a region-wide FTA.

#### **CRS Products:**

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J. F. Hornbeck.

CRS Report RL32110, *Agriculture in the U.S.-Dominican Republic-Central American Free Trade Agreement*, by Remy Jurenas.

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*, coordinated by K. Larry Storrs.

CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by J. F. Hornbeck.

CRS Report RL32770, *Andean-U.S. Free-Trade Agreement Negotiations*, by Lenore Sek.

CRS Report RS20864, *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by J. F. Hornbeck.

## **Terrorism Issues**

In the aftermath of the September 2001 terrorist attacks on New York and Washington, D.C., U.S. attention to terrorism in Latin America intensified, with an increase in bilateral and regional cooperation. Latin American nations strongly condemned the attacks, and took action through the Organization of American States to strengthen hemispheric cooperation. In June 2002, OAS members signed an Inter-American Convention Against Terrorism in order to improve regional cooperation, including a commitment by parties to deny safe haven to suspected terrorists. President Bush submitted the convention to the Senate in mid-November 2002 for its advice and consent, and it was referred to the Senate Foreign Relations Committee (Treaty Doc. 107-18). The committee held a hearing on the treaty on June 17, 2004, but no action was taken by the end of the 108<sup>th</sup> Congress. In the aftermath of 9/11,

the OAS also reinvigorated the Inter-American Committee on Terrorism (CICTE), which cooperated on border security mechanisms, controls to prevent funding of terrorist organizations, and law enforcement and counterterrorism intelligence.

In October 2003, the OAS held a Special Conference on Security in Mexico City that focused on identifying new threats, concerns, and challenges facing the hemisphere, and agreed on a cooperative approach toward addressing them. Among the threats identified in the adopted Declaration on Security in the Americas were “terrorism, transnational organized crime, the global drug problem, corruption, asset laundering, illicit trafficking in weapons and the connections among these activities.”<sup>3</sup>

The State Department, in its annual report on worldwide terrorism (*Country Reports on Terrorism 2004*, April 2005), highlights terrorist threats in Colombia, Peru, and the tri-border area (TBA) of Argentina, Brazil, and Paraguay, which has been a regional hub for Hizballah and Hamas fundraising activities. The 2004 report noted that persons suspected of ties to terrorist groups have been spotted in the TBA, but that no operational activities of terrorism have been detected. Cuba also has been listed as a state sponsor of terrorism since 1982.

In the aftermath of 9/11, U.S. attention focused on potential links in the region to the Al Qaeda terrorist network, but the State Department’s 2002 report on terrorism maintained that “there was no confirmed credible information” of an Al Qaeda presence in Latin America. The 2003 State Department report on terrorism maintained that reports of an Al Qaeda presence in the TBA region remained “uncorroborated by intelligence and law-enforcement officials.”

There were increased concerns in 2004 by some Central American officials about potential Al Qaeda threats in the region, although U.S. officials maintained that there was no evidence supporting such concerns.<sup>4</sup> The State Department’s 2004 report on terrorism maintains that there were “widespread, unfounded media reports alleging formal links between transnational criminal gangs and Islamic extremists” in Central America.

Through the State Department, the United States provides Anti-Terrorism Assistance (ATA) training and equipment to Latin American countries to help improve their capabilities in such areas as airport security management, hostage negotiations, bomb detection and deactivation, and countering terrorism financing. ATA financing is generally provided through the annual foreign operations appropriations measure. For FY2003, \$3.6 million in ATA assistance was provided for the region, with \$3.3 million of that for Colombia. For FY2004, \$5.3 million in ATA assistance was provided for the region. For FY2005, an estimated \$11.1 million in ATA is being provided for the region, with \$3.9 million for Colombia and \$0.5 million for the tri-border area of Argentina, Brazil, and Paraguay. The FY2006 ATA

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<sup>3</sup> Organization of American States. Declaration on Security in the Americas. Oct. 28, 2003.

<sup>4</sup> “U.S. Officials Dispute Al Qaeda Role in Hemisphere,” *Homeland Security Monitor* (Intellibridge), September 30, 2004; Jerry Seper, “Al Qaeda Seeks Tie to Local Gangs,” *Washington Times*, September 28, 2004.

request for Latin America is \$9.7 million, with \$3.9 for Colombia and the tri-border area.

The 108<sup>th</sup> Congress called for two reports from the Administration regarding terrorist activities in Latin America. The FY2005 Ronald W. Reagan National Defense Authorization Act (P.L. 108-375), enacted into law October 28, 2004, required: a report within 180 days from the Secretary of Defense on the activities of Al Qaeda and associated groups in Latin America and the Caribbean (Section 1047); and a report within 60 days from the Secretary of State regarding any relationships between foreign governments or organizations and terrorist groups in Colombia (Section 1021).

Both chambers in the 108<sup>th</sup> Congress also expressed concern regarding the continuing investigation into the July 1994 bombing of the Argentine-Israeli Mutual Association (AMIA) in Buenos Aires that killed 86 people. Allegations have linked Hizballah, the radical Lebanon-based Islamic group, to the 1994 bombing as well as to the 1992 bombing of the Israeli Embassy in Buenos Aires that killed 30 people. Both the House and the Senate approved similar resolutions — H.Con.Res. 469 (Ros-Lehtinen) and S.Con.Res. 126 (Coleman) — on July 22, 2004, that, among other provisions, urged Argentina to provide resources to investigate all areas of the AMIA case, encouraged U.S. law enforcement support, and suggested the establishment of an OAS task force to assist in the investigation.

**CRS Products:**

CRS Report RS21049, *Latin America: Terrorism Issues*, by Mark P. Sullivan.

## Gangs in Central America

In the past year, there has been increasing attention by the press and policymakers on the effects of crime and gang violence in Central America and its spillover effects on the United States. The February 2005 arrest of some 103 members of the violent Mara Salvatrucha (MS-13) gang in several cities across the United States — including a man charged in connection with a December 2004 bus massacre in Honduras that killed 28 people — raises concerns about the transnational activities of Central American gangs. Citizens in several Central American countries have identified crime and gang violence among the top issues of popular concern, and Honduras and El Salvador have recently enacted tough anti-gang legislation. Gang violence may threaten political stability, inhibit social development, and discourage foreign investment in Central America.

Many analysts predict that illicit gang activities may accelerate illegal immigration, drug smuggling, and trafficking in persons and weapons to the United States. Some analysts maintain that contact between gang members in both regions is increasing and that this tendency may serve to increase gang-related violent crime in the United States. Others assert that unless the root causes of gang violence, which include poverty, joblessness, and the social exclusion of at-risk youth, are addressed



in a holistic manner, the problem will continue to escalate. On April 20, 2005, Senator Lugar introduced a bill, S. 853, the North American Cooperative Security Act (NACSA), that includes provisions that would increase cooperation among U.S., Mexican, and Central American officials in the tracking of gang activity and in the handling of deported gang members.

**CRS Products:**

CRS Report RS22141, *Gangs in Central America*, by Clare Ribando.

## **AIDS in the Caribbean and Central America**

The AIDS epidemic in the Caribbean and Central America has begun to have negative consequences for economic and social development, and continued increases in infection rates threaten future development prospects. In contrast to other parts of Latin America, the mode of transmission in several Caribbean and Central American countries has been primarily through heterosexual contact, making the disease difficult to contain because it affects the general population. The Caribbean countries with the highest prevalence or infection rates are Haiti, with a rate of 5.6%; Trinidad and Tobago, with a rate of 3.2%; the Bahamas, with a rate of 3%; Guyana, with a rate of 2.5%; and Belize, with a rate of 2.4%. (Belize and Guyana are considered Caribbean nations because of their extensive linkages.) Four other Caribbean countries — the Dominican Republic, Suriname, Barbados, and Jamaica — have rates over 1%. In Central America, Honduras has the highest prevalence rate of 1.8%, while Guatemala has a rate over 1%.

The response to the AIDS epidemic in the Caribbean and Central America has involved a mix of support by governments in the region, bilateral donors (such as the United States, Canada, and European nations), regional and multilateral organizations, and nongovernmental organizations (NGOs). The World Bank, the Inter-American Development Bank, and the Global Fund to Fight AIDS, Tuberculosis, and Malaria have funded numerous HIV/AIDS projects in the Caribbean and Central America. Many countries in the region have national AIDS programs that are supported through these efforts.

The U.S. Agency for International Development (USAID) has been the lead U.S. agency fighting the epidemic abroad since 1986. USAID's funding for HIV/AIDS in Central America and the Caribbean region rose from \$11.2 million in FY2000 to \$33.8 million in FY2003. In May 2003, Congress approved the United States Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act of 2003 (P.L. 108-25), which authorized \$3 billion per year for FY2003 through FY2008 to fight the three diseases worldwide. The legislation and the President's Emergency Plan for AIDS Relief (PEPFAR) focus on assisting 12 African countries plus Guyana and Haiti, although the legislation notes that other countries may be designated by the President.

Because of the inclusion of Guyana and Haiti in PEPFAR, funded largely through the new Global HIV/AIDS Initiative (GHAI) account, overall U.S. HIV/AIDS assistance to the region in FY2004 amounted to at least \$18 million and will amount to at least \$53 million in FY2005. For the FY2006 request, the Administration is requesting \$21.4 million in GHAI assistance for Guyana and \$47 million for Haiti, bringing the total GHAI request for the region to \$68.4 million. These amounts do not include additional HIV/AIDS assistance funded through Development Assistance and ESF accounts for other countries and regional programs in the Caribbean and Central America.

Some Members of Congress wanted to expand the list of Caribbean countries in the 2003 HIV/AIDS legislation. In the 108<sup>th</sup> Congress, both the House-passed FY2004-FY2005 Foreign Relations Authorization Act, H.R. 1950 (Section 1818), and the Senate Foreign Relations Committee's reported FY2005 Foreign Relations Authorization Act, S. 2144 (Section 2518), had provisions that would have added 14 Caribbean countries to those listed in the May 2003 legislation, but no final action was taken on these measures. In the 109<sup>th</sup> Congress, S. 600, the Foreign Affairs Authorization Act, FY2006 and FY2007, contains a provision (Section 2516) that would add 14 Caribbean countries to the list of focus countries targeted for increased HIV/AIDS assistance.

**CRS Products:**

CRS Report RL32001, *AIDS in the Caribbean and Central America*, by Mark P. Sullivan.

## **Afro-Latinos**

In recent years, people of African descent in the Spanish and Portuguese-speaking nations of Latin America — also known as “Afro-Latinos” — have been pushing for increased rights and representation. Afro-Latinos comprise some 150 million of the region's 540 million total population, and, along with women and indigenous populations, are among the poorest, most marginalized groups in the region. Afro-Latinos have begun forming groups that, with the help of international organizations, are seeking political representation, human rights protection, land rights, and greater social and economic rights and benefits.

Improvement in the status of Afro-Latinos could be difficult and contentious, however, depending on the size and circumstances of the Afro-descendant populations in each country. Afro-Latinos are, generally, descendants of the millions of West African slaves brought to the Americas by European traders during the colonial period. Afro-Latinos tend to reside in coastal areas, although in many countries they have migrated to large cities in search of employment. Afro-Latinos comprise a majority of the population in Cuba and the Dominican Republic, while in Brazil, Colombia, Panama, Venezuela, Ecuador, and Nicaragua, they form a significant minority.

Afro-Latinos have sought assistance from international organizations, such as the World Bank and the Inter-American Development Bank (IDB), and have forged partnerships with some African-American business and political leaders. Afro-Latinos, as with indigenous groups, have presented some demands, such as legal and environmental protection of land rights, that may conflict with entrenched interests in their respective countries.

Assisting Afro-Latinos has not been a primary stated U.S. foreign policy objective, although a number of foreign aid programs exist that benefit Afro-Latino populations. Those programs are funded through the U.S. Agency for International Development (USAID), the Inter-American Foundation (IAF), the Peace Corps, and the National Endowment for Democracy (NED). They include agricultural, micro-credit, health, grassroots organizing, and bilingual education programs.

Congress has expressed some concern in recent years about the status of Afro-Latinos in Latin America. Some observers assert that the United States has an interest in improving the condition of Afro-Latinos in Latin America. Assisting vulnerable peoples fits into larger U.S. policy goals for the region: promoting democracy, encouraging economic growth and poverty reduction, and protecting human rights. Others disagree, however, as to whether U.S. foreign aid should be specifically targeted towards Afro-Latinos (as it has in the case of some indigenous groups), or be distributed broadly through efforts to support marginalized populations. Skeptics question whether increasing assistance to Afro-Latinos is feasible in a time when limited development assistance is being allocated to Latin America. Still others caution that the United States should be careful when intervening in the sensitive racial politics of other countries.

**CRS Products:**

CRS Report RL32713, *Afro-Latinos in Latin America and Considerations for U.S. Policy*, by Clare Ribando.

## Country Issues

### Argentina

With the successful restructuring of over \$100 billion in defaulted bond debt in early March 2005, Argentina clearly has emerged from its 2001-2002 economic and political crisis. Nevertheless, the current administration of President Néstor Kirchner faces considerable challenges, including the ability to build the political consensus needed in order to ensure future sustainable economic growth and financial stability. A member of the center-left Peronist Party (Justicialist Party or PJ), Kirchner emerged from a crowded April 2003 presidential race with 22% of the vote and was inaugurated to a four-year term on May 25, 2003. He succeeded another Peronist, Eduardo Duhalde, who had become President in January 2002 in the aftermath of the resignation of President Fernando de la Rúa of the Radical Civic Union (UCR). Social protests over deteriorating economic conditions had led to De la Rúa's resignation. Although the country was under considerable stress in 2001 and 2002, the democratic political system weathered the crisis, and economic growth resumed from a decline of almost 11% in 2002 to an increase of over 8.8% in 2003 and an estimated growth rate of 8.5% in 2004.<sup>5</sup>

President Kirchner's bold policy moves in the areas of human rights, institutional reform, and economic policy have helped restore Argentines' faith in government. He vowed to prosecute military officials responsible for past human rights violations during the last era of military rule (1976-1983). He supported the successful congressional annulment of amnesty laws from the 1980s that had blocked prosecution for crimes committed during the period of military rule. In the economic arena, the Kirchner government reached a three-year stand-by agreement with the International Monetary Fund (IMF) in September 2003, after several months of tough negotiations, that provided a credit line of about \$12.5 billion. However, Argentina suspended its IMF loan program in mid-August 2004 because of IMF pressure on completion of debt negotiations with bondholders and on Argentine progress in implementing key economic reforms.

Argentina renewed discussions with the IMF in early March 2005 after Argentina completed the restructuring of \$102 billion in defaulted bond debt. Some 76% of the bondholders accepted the restructuring proposal, agreeing to at most 30 cents on the dollar.<sup>6</sup> The debt restructuring — reportedly the largest debt-reduction ever achieved by a developing country — will reduce Argentina's total debt from \$190 billion to \$125 billion.<sup>7</sup>

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<sup>5</sup> "Argentina: Country Report," Economist Intelligence Unit, February 2005.

<sup>6</sup> Larry Rohter, "Argentina Announces Deal on Its Debt Default," *New York Times*, March 4, 2005.

<sup>7</sup> Adam Thomson, "The Improbable Hero: Man in the News Nestor Kirchner," *Financial Times*, March 5, 2005; and Kelly Hearn, "Argentina Cuts Debt; Investors Hurt; Public Hopeful Swap Will Revive Shaky Economy," *Washington Times*, March 15, 2005.

U.S.-Argentine relations have been strong since the country's return to democracy in 1983 and were especially close during the Menem presidency (1989-1999). U.S. officials had urged the Kirchner government and its private creditors to move expeditiously to work out a fair and mutually acceptable debt restructuring agreement, which they believe is critical to ensuring Argentina's continued economic recovery. The State Department also has highlighted concerns about the tri-border area (TBA) of Argentina, Brazil, and Paraguay because of activities of the radical Lebanon-based Islamic group Hizballah (Party of God) and the Sunni Muslim Palestinian group Hamas (Islamic Resistance Movement). The 108<sup>th</sup> Congress expressed concern regarding Argentina's investigation into the July 1994 bombing in Buenos Aires of the Argentine-Israeli Mutual Association (AMIA) that killed 86 people. Allegations have linked Hizballah to the AMIA bombing as well as to a 1992 bombing of the Israeli Embassy in Buenos Aires that killed 30 people. (Also see *Terrorism Issues* section above.)

**CRS Products:**

CRS Report RS21113, *Argentina: Political Conditions and U.S. Relations*, by Mark P. Sullivan.

CRS Report RL32637, *Argentina's Sovereign Debt Restructuring*, by J. F. Hornbeck.

CRS Report RS21072, *The Financial Crisis in Argentina*, by J. F. Hornbeck.

CRS Report RL31582, *The Argentine Financial Crisis: A Chronology of Events*, by J. F. Hornbeck.

## Bolivia

In the last few years, Bolivia has experienced political unrest resulting in the resignation of its president in 2003, and continuing discord over issues relating to the exploitation of its natural resources, coca eradication programs, indigenous rights, and the extent of power sharing between the central government and the country's nine departments. It is one of the poorest countries in Latin America, with a sizeable and active indigenous population, a long history of coca cultivation, and weak political institutions. Despite these challenges, the country has made some social and economic progress over the last several decades. Coca cultivation has decreased from its peak production years in the 1990s but is still a source of conflict between the government and coca growers. While political institutions are considered weak, a change in government took place in 2003 according to constitutional provisions.

U.S. interest in Bolivia centers on its role as a coca producer, and its relationship to Colombia and Peru, the two other major coca- and cocaine-producing countries. Some observers have criticized this focus for neglecting economic and social development issues, but the State Department defends it as necessary to promote licit economic development and democracy. Bolivia has the second-largest natural gas reserves in Latin America after Venezuela. The Bolivian government has plans, which have generated considerable controversy, to export gas to the United States

and Mexico, necessitating the construction of a pipeline to a coastal port of a neighboring country.

Political protests during 2003 led to the resignation of President Gonzalo Sánchez de Lozada on October 17, 2003, fifteen months after he was elected. Succeeding him as President was his former vice president, Carlos Mesa, a popular former television journalist, historian, and political independent. This change in leadership came about after months of protests led by indigenous groups and workers who carried out strikes and road blockages that resulted in up to 80 deaths in confrontations with government troops. The focus of the protests was the continued economic marginalization of the poorer segments of society, especially in response to government budget cutbacks and proposals to raise taxes. The final spark, which immediately preceded Sánchez de Lozada's resignation, was his plan to export natural gas via a port in Chile, a historic adversary of Bolivia.

The new president has faced many difficulties in governing a politically fractured society, within a context of a highly mobilized indigenous community, continuing street protests, and his inability to obtain consensus on natural gas exports as a basis for the country's future economic development. A new hydrocarbons law raises taxes on foreign firms by 32% and maintains an 18% royalty. The new legislation is vehemently opposed by business interests and could jeopardize future foreign investment. The country is dependent on foreign investors, who have spent about \$3 billion on explorations since the late 1990s, to help it tap its considerable natural gas reserves. Bolivian politics are further complicated by President Mesa's promise of a constituent assembly to reform the constitution, calls for some type of devolution of power from the central government to the nine regional departments, including a tentatively scheduled August 2006 election for department governors. Some observers believe Bolivia is reaching a situation of ungovernability as disparate political actors push their demands with little room for compromise.

**CRS Products:**

CRS Report RL32580, *Bolivia: Political and Economic Developments and Implications for U.S. Policy*, by Connie Veillette.

CRS Report RL32770, *Andean-U.S. Free Trade Agreement Negotiations*, by Lenore Sek.

## **Brazil**

Luis Inácio Lula da Silva of the leftist Workers' Party (PT) was inaugurated as President of Brazil on January 1, 2003. He won the October 2002 elections decisively, with the support of leftist parties and a variety of centrist elements. During his first two years in office, President Lula da Silva pursued cautious economic policies that helped Brazil surpass the IMF's fiscal targets. As a result, the country experienced lower inflation, a strengthening of the currency, a dramatic lowering of Brazil's credit risk rating, and a 5% growth rate in 2004. In 2003, President Lula da Silva orchestrated a reform of the social security system to make

it more self-sustaining and a modification of the tax system to make it more effective and fair. In 2004, he gained approval of new laws to reduce the length of legal proceedings and to allow more private investment in public infrastructure projects. Even so, he has been criticized for failing to develop more effective social programs to address the persistent problems of land distribution, social inequity, and crime, especially in the wake of the February 2005 murder of U.S. missionary and landless activist Dorothy Stang.

In the second half of his four-year term, President Lula da Silva, though still enjoying popular support, is struggling to maintain allies in the Brazilian Congress to support his legislative agenda. Although the PT survived the October 2004 municipal elections relatively well, the opposition Brazilian Social Democratic Party (PSDB) strengthened its position by winning control of some traditional PT strongholds, including São Paulo. The President is having difficulty maintaining the support of the large centrist Brazilian Democratic Movement Party (PMDB) that is split on support, is demanding more cabinet positions, and is considering running a separate presidential candidate in 2006. In February 2005, the fragility of President Lula da Silva's coalition became evident when a relative unknown, Severino Cavalcanti of the right-wing Progressive Party (PP), defeated the President's preferred PT candidate to become Speaker of the Chamber of Deputies.

Relations with the United States have been generally positive, although President Lula da Silva has made relations with the neighboring countries in the Southern Common Market (Mercosur) his first priority, and has been seeking to strengthen ties with the European Union and non-traditional partners, including India and China, and African and Arab countries. On June 20, 2003, President Lula da Silva made an official visit to Washington, D.C., and the countries' leaders resolved "to create a closer and qualitatively stronger [bilateral] relationship." Following an October 2004 visit by her predecessor, Secretary of State Condoleezza Rice visited Brazil on April 26-27, 2005, and discussed ways to advance trade and democracy in the world.

Completion of the Free Trade Area of the Americas (FTAA) is a central bilateral issue since Brazil and the United States are co-chairs of the FTAA Trade Negotiation Committee. Brazil asserts that the FTAA must include measures to curtail agricultural subsidies and to reduce the use of anti-dumping and countervailing duties, while the United States emphasizes investment and intellectual property rights and argues that agricultural subsidy issues should be resolved in the Doha round of WTO talks. In September 2003, the WTO talks held in Cancun, Mexico stalled as Brazil led a group of developing countries called the G-20 that insisted that developed countries agree to reduce agricultural subsidies as part of any settlement. However, the talks were revived in early 2004, and the parties eventually agreed on August 1, 2004, on the framework for a possible WTO agreement. Brazil won a WTO dispute settlement case against U.S. cotton subsidies in September 2004, and Brazil's position was reaffirmed by the WTO appellate body in March 2005.

Disagreements on the terms of the FTAA came to a head in the November 2003 Ministerial Meeting in Miami, Florida where the parties finally agreed on a formula called by some an "FTAA light." Under the formula, all of the countries would agree to a set of core obligations, while countries which favored a more ambitious

agreement would negotiate plurilateral agreements. However, when the Trade Negotiations Committee (TNC) met in Puebla, Mexico, in early February 2004, the delegates were unable to agree on the FTAA common obligations, and continuing disagreements among the co-chairs have prevented further meetings. While U.S. and Brazilian officials sought to renew the FTAA talks in February, March, April, and May 2005, a May 19, 2005 meeting of the co-chairs was cancelled, prompting a Caribbean Community (CARICOM) representative to call for a full meeting of the Trade Negotiations Committee to bridge outstanding differences.

**CRS Products:**

CRS Report RL32571, *U.S.-Brazil WTO Cotton Subsidy Dispute*, by Randy Schnepf.

CRS Report RS21905, *The Agriculture Framework in the WTO Doha Round*, by Charles Hanrahan.

CRS Report RL30121, *Brazil under Cardoso: Politics, Economics, and Relations with the United States*, by K. Larry Storrs.

## Cuba

Cuba under Fidel Castro remains a hard-line communist state, with a poor record on human rights that has deteriorated significantly since 2003. With the cutoff of assistance from the former Soviet Union, Cuba experienced severe economic deterioration from 1989 to 1993. While there has been some improvement since 1994 as Cuba has implemented limited reforms, the economy remains in poor shape.

Since the early 1960s, U.S. policy toward Cuba has consisted largely of isolating the island nation through comprehensive economic sanctions. Another component of U.S. policy consists of support measures for the Cuban people, including private humanitarian donations and U.S.-sponsored radio and television broadcasting to Cuba (Radio and TV Marti).

The Bush Administration essentially has continued the two-track U.S. policy of isolating Cuba through economic sanctions while supporting the Cuban people through a variety of measures. However, within this policy framework, the Administration has emphasized stronger enforcement of economic sanctions and has moved to further tighten restrictions on travel, remittances, and humanitarian gift parcels to Cuba. There was considerable reaction to the Administration's June 2004 tightening of restrictions for family visits and other categories of travel. More recently, U.S. agricultural exporters and some Members of Congress have opposed the Administration's February 2005 action by the Treasury Department's Office of Foreign Assets Control (OFAC) to apply a more narrow meaning to the term "payment of cash in advance" to require that payment for U.S. agricultural exports is received prior to their shipment. They fear that millions of dollars in U.S. agricultural exports to Cuba could be jeopardized.

While there appears to be broad agreement in Congress on the overall objective of U.S. policy toward Cuba — to help bring democracy and respect for human rights



to the island — there are several schools of thought on how to achieve that objective. Some advocate maximum pressure on the Cuban government until reforms are enacted, others argue for lifting some U.S. sanctions that they believe are hurting the Cuban people, and still others call for a swift normalization of U.S.-Cuban relations by lifting the U.S. embargo.

Most attention so far in the 109<sup>th</sup> Congress has focused on Cuba's poor human rights situation and on the Administration's February 2005 imposition of new restrictions on the process of receiving cash payments for U.S. agricultural exports. Legislative initiatives have included three human rights resolutions: H.Con.Res. 81 and H.Res. 193, approved by the House, and S. 140, approved by the Senate. Numerous initiatives would ease Cuba sanctions: H.R. 208 and H.R. 579 would lift most economic sanctions on Cuba; S. 894 and H.R. 1814 would lift restrictions on travel to Cuba; H.R. 1339 and S. 634 would clarify the term "payment of cash in advance" for U.S. agricultural sales; H.R. 719 and S. 328, in addition to clarifying the term "payment of cash in advance," would take other measures to facilitate U.S. agricultural sales to Cuba and repeal a provision of law preventing payments for trademark registration and renewals from Cuban or foreign nationals used in connection with a confiscated business or assets in Cuba. In contrast, identical bills H.R. 1689 and S. 691 would make a change to U.S. law regarding Cuban trademarks so that it applies to all parties regardless of nationality. Proposed Cuba amendments to S. 600 would add the language of S. 328 easing Cuba sanctions (S.Amdt. 281) and authorize \$15 million in democracy and human rights projects for Cuba (S.Amdt. 319). A failed amendment (S.Amdt. 284) to S. 600 would have prohibited funding for television broadcasting to Cuba. A legislative initiative to tighten sanctions, H.R. 332, would link the lifting of the embargo to Cuba's extradition of U.S. fugitives from justice in Cuba

**CRS Products:**

CRS Report RL32730, *Cuba: Issues for the 109th Congress*, by Mark P. Sullivan.

CRS Report RL31139, *Cuba: U.S. Restrictions on Travel and Legislative Initiatives*, by Mark P. Sullivan.

CRS Report RL32251, *Cuba and the State Sponsors of Terrorism List*, by Mark P. Sullivan.

CRS Report RS20468, *Cuban Migration Policy and Issues*, by Ruth Ellen Wasem.

CRS Issue Brief IB10061, *Exempting Food and Agriculture Products from U.S. Economic Sanctions: Status and Implementation*, by Remy Jurenas.

CRS Report RS21764, *Restricting Trademark Rights of Cubans: WTO Decision and Congressional Response*, by Margaret Mikyung Lee.

## Dominican Republic

President Leonel Fernández of the Dominican Liberation Party (PLD), who served as president previously (1996-2000), took office on August 16, 2004. Press reports indicate that, nine months into his four-year term, President Fernández has restored some confidence in the Dominican economy. As of March 2005, year-on-year GDP growth stood at 4%, and inflation had declined dramatically. The Fernández administration has struggled, however, to cope with rising crime rates and persistent electricity shortages. On December 28, 2004, President Fernández signed a bill repealing a Dominican tax on drinks containing high fructose corn syrup, a major U.S. product, that had threatened the country's chances of being included in the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA). On February 1, 2005, President Fernández signed a new \$665 million loan agreement with the IMF.

### CRS Products:

CRS Report RS21718, *Dominican Republic: Political and Economic Conditions and U.S. Relations*, by Clare Ribando.

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J. F. Hornbeck.

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the U.S.-Central America Free Trade Agreement (CAFTA)*, coordinated by K. Larry Storrs.

## Ecuador

On April 20, 2005, President Lucio Gutierrez of the Patriotic Society Party (PSP) was removed from office by Ecuador's Congress following weeks of popular protests, becoming the country's third consecutive popularly elected president who was unable to complete his term. Gutierrez's ouster was precipitated by popular outrage at his December 2004 replacement of the majority of the judges on the country's three highest courts with his political allies, a move that had been sharply criticized by the international community. Gutierrez, a former army Colonel who was part of the junta that toppled the government of Jamil Mahuad in January 2000, has sought asylum in Brazil. The Bush Administration and the Organization of American States (OAS), though opposed to Gutierrez's recent actions, have expressed some concerns about the constitutionality of his removal and replacement.

Succeeding Gutierrez as President is his former Vice President, Alfredo Palacios, a physician and political independent. Palacios is the country's seventh president in nine years. Ecuador's economy is currently expanding because of high oil prices, but its political institutions are extremely weak. President Palacios will have to oversee the selection of new constitutional and electoral courts, which were dissolved on April 27, 2005. Mr. Palacios has given some indications that he may

direct the country's excess oil revenues to social programs rather than to foreign debt repayment. Although Palacios has pledged to work closely with the United States, especially on military and counter-narcotics matters, he has yet to express whether Ecuador will continue negotiating, along with Colombia and Peru, for a U.S.-Andean Free Trade Agreement.

**CRS Products:**

CRS Report RS21687, *Ecuador: Political and Economic Situation and U.S. Relations*, by Clare Ribando.

CRS Report RL32770, *Andean-U.S. Free Trade Agreement Negotiations*, by Lenore Sek.

## El Salvador

Tony Saca, a businessman from the conservative National Republican Alliance (ARENA) party, was inaugurated as president for a five-year term in June 2004. President Saca faces the challenges of restarting a stagnating economy, passing legislation in a polarized political environment, and combating gang violence. Although 54% of Salvadorans approve of his overall job performance, a majority disprove of his decision to maintain a contingent of 380 Salvadoran soldiers in Iraq. The United States is working with President Saca to combat narco-trafficking, to resolve immigration issues, and to promote free trade, possibly through the proposed United States-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). On December 17, 2004, El Salvador became the first country in Central America to ratify DR-CAFTA. On January 6, 2005, the U.S. government extended the Temporary Protected Status (TPS) of undocumented Salvadoran migrants living in the United States until September 9, 2006. On April 29, 2005, Secretary of State Condoleezza Rice, while on an official visit to El Salvador, praised the country as a "strong ally in the war on terror...[a country] that has come through so much to have a democratic president and a democratic future."

**CRS Products:**

CRS Report RS21655, *El Salvador: Political and Economic Conditions and Relations with the United States*, by Clare Ribando.

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*, coordinated by K. Larry Storrs.

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J. F. Hornbeck.

## Guatemala

Congressional concerns regarding Guatemala in the 109<sup>th</sup> Congress include how to support further consolidation of its democratic process, reduction of poverty, respect for human rights, further military reform, and the proposed easing of 15-year old prohibitions of U.S. military aid to Guatemala. Guatemala has been consolidating its transition from centuries of mostly autocratic rule toward representative government since the 1980s, but its democratic institutions remain fragile. Since taking office in January 2004 for a four-year term, President Oscar Berger has made fulfilling the 1996 Peace Accords a central theme of his administration. The Peace Accords ended a 36-year civil war and outline a profound restructuring of state institutions. They seek to end government security forces' impunity from prosecution and consolidate the rule of law; shift considerable government funding away from the military and into health, education, and other basic services to reach the rural and indigenous poor; and promote the full participation of the indigenous population in local and national decision-making processes.

President Berger has attacked corruption and enacted long-delayed military reforms. His economic reforms include a temporary tax to fund programs related to the peace process. The Financial Action Task Force, an international organization dedicated to enhancing international cooperation in combating money-laundering, welcomed progress made by Guatemala in enacting and implementing anti-money laundering legislation.<sup>8</sup> In March 2005, the Guatemalan legislature passed CAFTA, the U.S.-Central America free-trade agreement, as part of the government policy to stimulate the economy by encouraging private investment. Protests against the agreement have continued around the country since it was passed, leading to at least one death. Opposition leaders maintain it favors capital-intensive investment over labor-intensive development, and will therefore hurt the poor.<sup>9</sup> President Berger has proposed developing compensation programs for sectors which prove to be hurt by the implementation of CAFTA.

Guatemala continues to exhibit extreme poverty and inequality. About 56% of the total population, and 76% of the indigenous population, live in poverty. According to the World Bank, Guatemala has one of the largest income distribution gaps in the world. Guatemala's social indicators continue to be among the worst in the hemisphere. Its malnutrition rates are among the worst in the world; 44% of children under five years of age have stunted growth. Drought and low coffee prices triggered a rural economic crisis beginning in 2001, which has caused severe malnutrition among the rural poor. Guatemala's illiteracy rate is extremely high: at 31%, only Nicaragua and Haiti have worse levels in the hemisphere. The average level of schooling is an extremely low 4.3 years, and among the poor, it is less than two years.

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<sup>8</sup> "FATF Tackles Terrorism Financing, Delists Guatemala," Financial Action Task Force, July 2, 2004.

<sup>9</sup> U.S. Southern Command Daily Open Source Information Overview, "One Dead in Guatemala Protests against Trade Deal with U.S.," March 16, 2005.

Regarding respect for human rights, Guatemala has made enormous strides, but significant problems remain. The U.N., the OAS, and the United States have all expressed concern that human rights violations have increased over the past several years, and that the Guatemalan government has taken insufficient steps to curb them. The U.N. Office of the High Commissioner for Human Rights is succeeding the U.N. Verification Mission in Guatemala, which withdrew in late 2004 after verifying compliance with the Peace Accords for ten years. According to the State Department's human rights report for 2004,<sup>10</sup> the Guatemalan government "generally respected the human rights of its citizens," but "very serious problems" remained, including reported extrajudicial killings and kidnapping for ransom by security forces, and social cleansing. The Guatemalan legislature is considering tough anti-gang legislation, similar to legislation that has been criticized in other countries for neglecting or violating human rights. President Berger supports a more balanced approach to the gang problem, with preventive as well as suppressive elements.

The Bush Administration's 2006 budget would provide Guatemala with International Military Education and Training (IMET) and Foreign Military Financing (FMF) funds that have been prohibited since 1990 because of human rights concerns. The FY2005 consolidated appropriations act (P.L. 108-447) allows only expanded-IMET, or training for civilians in defense matters, military justice reform, and respect for human rights, and prohibits FMF for Guatemala. The Berger Administration requested funds to modernize the military and provide equipment for border protection and counternarcotics efforts, noting that it carried out military reforms such as reducing the size of the military by half. While applauding the reduction in forces, some human rights groups say that other reforms required by the Peace Accords have not yet been enacted, and they express concern about continued human rights abuses and impunity and about corruption among current and former military officials.

**CRS Products:**

CRS Report RL32124, *Guatemala: Political Conditions, Elections, and Human Rights*, by Maureen Taft-Morales.

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*, coordinated by K. Larry Storrs.

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J. F. Hornbeck.

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<sup>10</sup> U.S. Dept. Of State, *Country Reports on Human Rights Practices 2004, Guatemala*, Feb. 28, 2005.

## Haiti

The main issue for U.S.-Haiti policy during the 109<sup>th</sup> Congress will likely be how to foster stability and development in Haiti. Remarking on the nexus between development, security, and human rights, the chairman of a UN Advisory Group on Haiti recommended addressing poverty reduction, demobilization and reintegration, political reconciliation, and judicial and security sector reform.<sup>11</sup> Some policymakers argue that security is the top priority and are debating how best to support the existing U.N. Mission, or whether to expand the U.N.'s role, with some observers urging some sort of long-term international intervention. As political disarray and human rights violations continue, some observers are expressing concern that conditions will not be conducive to safe elections. Others argue that establishing a legitimate government through fair, credible elections is the first step toward stability. The interim government and MINUSTAH are preparing for local elections scheduled for October 9 and presidential and legislative elections for November 13, 2005.

Security has improved in recent months, but volatility and the lack of a functioning infrastructure make it difficult to pursue other U.S. goals in Haiti. These include decreasing narcotics trafficking, promoting democracy and respect for human rights, and alleviating poverty. A further Administration goal, of limiting illegal immigration, has been challenged by some Members as not affording adequate protection for Haitian asylum-seekers. Since armed rebellions led to the departure of President Jean-Bertrand Aristide in February 2004, an interim government has taken over, but security conditions remain tenuous. The Haitian National Police are considered understaffed and under equipped to maintain order. The U.N. Stabilization Mission in Haiti (MINUSTAH) has also been understaffed, as member governments were slow to send the 6,700 troops and 1,622 civilian police that were authorized. MINUSTAH's ability to carry out its mandate to establish law and order is further hampered by the diversion of its resources to help protect and deliver emergency assistance following natural disasters which left thousands dead or homeless. MINUSTAH has also been urging international donors to accelerate the disbursement of \$1 billion in aid pledged for 2004-2006 to support their efforts. Three peacekeepers have been killed in 2005.

To encourage the international community to make Haiti a higher priority, the entire 15-member U.N. Security Council traveled to Haiti April 13-16. Calling "dramatic" poverty "the prime cause of instability in Haiti," the delegation emphasized the need for a long-term development strategy. The delegation said it planned to extend MINUSTAH's mandate when it expires in June and would consider contributing more foreign police. It also said that holding elections was the most pressing challenge for Haiti and the international community.<sup>12</sup>

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<sup>11</sup> "Holding Free, Fair, Inclusive Elections in 2005 Most Pressing, Visible Challenge for Haiti, Security Council Told." UN Security Council 5178<sup>th</sup> Meeting (AM). Press Release SC/8384, May 13, 2005.

<sup>12</sup> Ibid, and "Haiti Security Improved, but International Assistance Remains Vital for Social, Political Progress, Security Council Told." UN Security Council Press Release SC/8363, (continued...)

Through the FY2005 foreign operations appropriations act (incorporated into the FY2005 Consolidated Appropriations Act, P.L.108-447), Congress requires the Administration to provide reports on a multi-year assistance strategy within 90 days, and on a reforestation strategy, including funding requirements, within 180 days of the bill's enactment. Supporters of trade preferences for Haiti, which passed the Senate last year, are reportedly developing a compromise bill for reconsideration by both houses this session.<sup>13</sup> Members are also debating what role U.S. troops should play in enhancing Haitian security. Only six U.S. personnel are participating in MINUSTAH. Earlier in the year, the interim Haitian government requested that U.S. troops return to Haiti. Instead, the Department of Defense is conducting a humanitarian exercise, which also helps train U.S. military units in construction and medical care services, from February to May 2005 as a show of support for the interim government.

**CRS Products:**

CRS Report RL32294, *Haiti: Developments and U.S. Policy Since 1991 and Current Congressional Concerns*, by Maureen Taft-Morales.

CRS Report RS21349, *U.S. Immigration Policy on Haitian Migrants*, by Ruth Ellen Wasem.

CRS Report RS21839, *Haitian Textile Industry: Impact of Proposed Trade Assistance*, by Bernard A. Gelb.

CRS Web Page CA9005, *Haiti: Legislation in the 108<sup>th</sup> Congress*, by Andy Mendelson, available online at [<http://www.crs.gov/products/browse/officialsources/haitileg.shtml>].

## Honduras

Honduras faces the enormous challenge of improving economic and living conditions in one of the hemisphere's poorest countries while at the same time dealing with a high crime rate perpetrated by youth gangs known as *maras*. Current President Ricardo Maduro — inaugurated to a four-year term in January 2002 — is the 6<sup>th</sup> elected president since the country's return to civilian rule. The next national elections are scheduled for November 2005, but the campaign has been underway for some time. Political parties held primaries on February 20, 2005, with the National Party nominating Porfirio Lobo, the current head of the Honduran Congress, and the Liberal Party nominating Manuel Zelaya, a rancher and former head of the Honduran Social Investment Fund. President Maduro will not be a candidate since under the Honduran Constitution, anyone who has served as president may not be re-elected.

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<sup>12</sup> (...continued)  
April 20, 2005.

<sup>13</sup> "DeWine, Thomas work on Haiti Textile Bill despite NCTO Opposition," *Inside US Trade*, May 20, 2005.

The United States has a close relationship with Honduras, characterized by significant foreign assistance, an important trade partnership, a military presence in the country, and cooperation on a range of transnational issues, including anti-narcotics efforts and more recently the fight against terrorism. Honduras became one of the first beneficiaries of increased U.S. foreign assistance under the Millennium Challenge Account (MCA). It became eligible to compete for MCA funding in 2004, and on May 20, 2005, the Millennium Challenge Corporation approved a five-year \$215 million compact with Honduras.

Honduras is a party to the U.S.-Central America Free Trade Agreement (CAFTA) signed on May 28, 2004, and the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) signed on August 5, 2004. Reflecting widespread support in Honduras for the agreement, the Honduran Congress approved the DR-CAFTA on March 3, 2005, by a vote of 124-4, although active opponents of the agreement included government workers, teachers, and peasants. The Bush Administration views DR-CAFTA as a means of solidifying democracy in Honduras and promoting safeguards for environmental protection and labor rights in the country; critics fear that an agreement without strong environmental and labor provisions would do nothing to spur reforms in the country. Honduras views the agreement as an important element of the country's economic development strategy that could spur additional foreign investment and non-traditional exports. Without such an agreement, the country fears that there would be disinvestment from its export assembly sector and that it would not be able to compete with China in textile and apparel exports to the U.S. market. As noted above (*U.S.-Latin American Trade Relations*), Congress did not consider implementing legislation for the DR-CAFTA by the end of the 108<sup>th</sup> Congress, but consideration by the 109<sup>th</sup> Congress is likely.

**CRS Products:**

CRS Report RS21103, *Honduras: Political and Economic Situation and U.S. Relations*, by Mark P. Sullivan.

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*, coordinated by K. Larry Storrs.

CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J. F. Hornbeck.

## Mexico

Congressional interest in Mexico generally focuses on trade, migration, and drug trafficking issues. President Bush and President Fox both expressed the desire shortly after President Bush's re-election to follow up on earlier immigration discussions between the two leaders that began in 2001. In January 2004, President Bush called for an overhaul of the immigration system to permit the matching of willing foreign workers with willing U.S. employers when no Americans can be found to fill available jobs. Under his proposal, temporary legal status would be



granted to new foreign workers who have work offers in the United States and to undocumented workers already employed in the United States for a term of three years that could be renewed but would end at some point. The proposal is in line with Fox-Bush pledges in 2001, subsequently stalled because of terrorism concerns, to achieve more orderly and humane migration flows between the countries, and is similar to several congressional initiatives introduced in the 108<sup>th</sup> Congress with guest worker and/or amnesty provisions.

In February 2005, the House passed the REAL ID Act (H.R. 418) that would establish identity card standards for the issuance of drivers' licenses, waive laws to facilitate the construction of a border fence, and require a pilot test of ground surveillance technologies at the border. A similar provision was considered, but ultimately left out of, the Intelligence Reform and Terrorism Prevention Act of 2004 (P.L. 108-458). Most of H.R. 418 was incorporated into H.R. 1268, the FY2005 Emergency Supplemental Appropriations Act for Defense, the Global War on Terrorism, and Tsunami Relief, that was passed by the House and the Senate in May (P.L. 109-13). Mexican officials oppose the bill's provisions, arguing that it will do little to stop the flow of undocumented workers. Instead, it will make it more difficult for undocumented workers to open bank accounts in the United States or to buy plane tickets. The Mexican government has also expressed concerns with private citizens patrolling the border for Mexicans crossing into Arizona. These private groups argue that the U.S. Border Patrol has insufficient resources to secure the border area from illegal immigration.

On trade issues, Mexico is the United States' second most important trading partner, with two-way trade tripling since 1994 under the North American Free Trade Agreement (NAFTA), but there are various disputes between the countries. Mexico has complained, for example, that the United States is still failing to grant Mexican trucks access to U.S. highways, in part because of congressionally-imposed safety requirements. The United States has complained about Mexico's 20% tax on soft drinks made with high fructose corn syrup (HFCS), with devastating impact on HFCS sales. Under congressional pressure, the USTR is pursuing WTO dispute settlement procedures with Mexico, although producer groups are still hoping to achieve a negotiated settlement. Mexico banned beef imports from the United States in December 2003 following the discovery of mad cow disease in Washington state. In March and April 2004, following the announcement of new U.S. procedures, Mexico announced that it was resuming beef trade with the United States, but was retaining the ban on live cattle imports.

On drug trafficking issues, the State Department's March 2005 International Narcotics Control Strategy Report praised Mexico for the capture of major drug cartel figures, for the seizure of large quantities of illicit drugs, and for unprecedented levels of cooperation with the United States in counter-narcotics efforts. Mexico is a major producer of heroin, methamphetamine, and marijuana destined for the United States. It is also considered a major transit country for cocaine from the Andean region. The State Department reported in April 2004 that marijuana and opium poppy cultivation increased significantly in Mexico in 2003. In recent law enforcement actions, on October 19, 2004, U.S. officials announced the dismantling of a major Mexican money-laundering and drug trafficking organization operating in the United States. On a related issue, a February 2005 State Department report on

human rights that was critical of Mexico's record relating to the operation of its security forces was not well-received by President Fox.

**CRS Products:**

CRS Report RL32724, *Mexico-U.S. Relations: Issues for the 109th Congress*, by K. Larry Storrs.

CRS Report RL32934, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, by M. Angeles Villarreal.

CRS Report RS21737, *NAFTA at Ten: Lessons from Recent Studies*, by J.F. Hornbeck.

CRS Report RL32669, *Mexico's Counter-Narcotics Efforts Under Fox, December 2000 to October 2004*, by K. Larry Storrs.

CRS Report RL32038, *Drug Certification/Designation Procedures for Illicit Narcotics Producing and Transit Countries*, by K. Larry Storrs.

CRS Report RS21561, *Mexico's Congress and July 2003 Elections*, by K. Larry Storrs.

CRS Report RL32044, *Immigration: Policy Considerations Related to Guest Worker Programs*, by Andorra Bruno.

## Nicaragua

Tensions among current President Enrique Bolaños, the Sandinista party (Sandinista National Liberation Front, FSLN), and allies of former President Arnoldo Aleman (1997-2002) are threatening Nicaragua's political stability. In a country with a long tradition of government corruption, President Bolaños took the landmark step of prosecuting former President Aleman and 13 associates for embezzling \$100 million in public funds while in office. Aleman was sentenced to 20 years in prison in December 2003 for fraud and money-laundering. Bolaños had been Vice-President under Aleman. After prosecuting his former boss, Bolaños was left with only a small faction of the Liberal Constitutionalist Party (PLC) supporting him. Currently, the ability of President Bolaños's administration to govern is being undermined by a pact between the leftist Sandinistas and the faction of the rightist PLC that remains loyal to Aleman. Aleman and Sandinista leader Daniel Ortega, once longtime political foes, negotiated a power-sharing pact in 1998 that has since defined national politics. Renegotiation of the pact in 2004 included a demand for Aleman's release.

The Organization of American States and the U.S. and other foreign governments have expressed concern that charges of electoral fraud made against Bolaños and efforts to impeach him are threats to the constitutional order. In January 2005, the National Assembly, which is dominated by the PLC and Sandinista parties

in opposition to the government, adopted a series of constitutional amendments that transferred presidential powers to itself and further divided up government institutions as political patronage. The Bolaños Administration does not recognize the amendments, and the Central American Court of Justice found them to be illegal, although its ruling is non-binding. A mechanism has been established for a national dialogue to reach a consensus on the constitutional amendments and governance. Some observers say recent violent protests and calls for Bolaños' resignation have been orchestrated by the opposition and are not supported by public opinion. Bolaños has suggested he might invoke the OAS Inter-American Democratic Charter, under which a member government that considers its democratic process or legitimate exercise of power to be at risk may request assistance from the OAS to strengthen and preserve its democratic system. The OAS sent a high-level delegation to Nicaragua in October 2004 and again on May 24 to determine whether the Inter-American Democratic Charter is being breached.

Nicaragua is the second poorest nation in the hemisphere, rating only above Haiti. Nicaragua's poverty is widespread and acute. According to a recent World Bank report, overall poverty declined in Nicaragua between 1993 and 2001, but over two-thirds of the rural population continue to live in poverty. Some social indicators have shown little or no improvement since 1993. Fertility rates continue to be high. Despite a marked increase in primary and secondary school enrollment, illiteracy rates among youth and adults have not improved.<sup>14</sup> The official unemployment rate is about 22%, with another 36% underemployed.<sup>15</sup> Primarily an agricultural country, Nicaragua's economy has been especially hard hit by the devastation wrought by natural disasters, drought, and a dramatic 75% decline in coffee prices.

The Bush Administration states that strengthening democracy is its first priority in Nicaragua. The Administration requested \$39 million for FY2005. This total is likely to increase significantly as the country submits proposals to be funded by the newly-established Millennium Challenge Account program. In the FY2005 consolidated appropriations act (P.L.108-447), Congress earmarked for Nicaragua \$35 million for child survival and health programs and development assistance; \$3.5 million in Economic Support Funds; \$1 million for drug interdiction efforts; and \$0.5 million in Foreign Military Financing. The act also commended the Nicaraguan government office in charge of anti-corruption efforts and recommended providing it \$250,000. The Bush Administration suspended military assistance to Nicaragua on March 20, 2005, until an agreement is worked out to destroy an arsenal of anti-aircraft missiles the Administration says constitutes a possible terrorist threat.

The Bolaños and Bush Administrations made the signing of a U.S.-Central America Free Trade Agreement (CAFTA) a priority. President Bolaños sent the agreement to the legislature in October 2004. On May 4, 2005, the committee of jurisdiction issued its reports, with a majority supporting the agreement. The National Assembly has indicated it will seek complementary legislation on support

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<sup>14</sup> The World Bank Group, Latin America and the Caribbean, *Nicaragua Poverty Assessment*, June 2, 2004.

<sup>15</sup> U.S. Dept. of State, *Background Note: Nicaragua*, February 2005, p. 5.

for trade capacity building and will not vote on CAFTA before the U.S. Congress does so.

Resolution of property claims by U.S. citizens, arising from expropriations carried out by the Sandinista government in the 1980s, remains a contentious area in U.S.-Nicaraguan relations. The issue has recently been stirred up by Sandinista efforts to pass a law that would establish a new Property Institute and possibly lead to the dismissal of 768 property claim lawsuits seeking compensation that are still pending in Nicaraguan courts. The Bush Administration has warned that passage of the property law could threaten U.S. aid to Nicaragua.

Other issues of concern to Congress include improving respect for human rights, developing a free market economy, improving civilian control over defense policy, increasing Nicaragua's capacity to combat trans-national crimes such as narcotics trafficking and trafficking in people, and reforming the judicial system and implementing good governance.<sup>16</sup>

#### **CRS Products:**

CRS Report RL32322, *Central America and the Dominican Republic in the Context of the Free Trade Agreement (DR-CAFTA) with the United States*, coordinated by K. Larry Storrs.

## **Panama**

With four successive elected civilian governments, the Central American nation of Panama has made notable political and economic progress since the 1989 U.S. military intervention that ousted the regime of General Manuel Antonio Noriega from power. The current President, Martín Torrijos of the Democratic Revolutionary Party (PRD), was elected in May 2004 and inaugurated on September 1, 2004. Torrijos, the son of former populist leader General Omar Torrijos, won a decisive electoral victory with almost 48% of the vote in a four-man race. He succeeded President Mireya Moscoso of the Arnulfist Party (PA), elected in 1999, whose administration was tainted by several high-profile corruption scandals. Torrijos' electoral alliance also won a majority of seats in the unicameral Legislative Assembly.

The most significant challenges facing the new government include dealing with the funding deficits of the country's social security fund; developing plans for the expansion of the Panama Canal; and combating poverty (estimated at 40%) and unemployment (estimated at about 12%). After more than eight months in office, President Torrijos remains popular, with a 58% approval rating, although some observers believe that support for the government could erode unless it makes inroads into tackling unemployment and combating corruption, and some maintain

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<sup>16</sup> Ibid, p. 6.

that the President's popularity will be tested when he moves forward with plans to reform the social security fund.

The United States has close relations with Panama, stemming in large part from the extensive history of linkages developed when the Panama Canal was under U.S. control and Panama hosted major U.S. military installations. The current bilateral relationship is characterized by extensive cooperation on counternarcotics efforts as well as U.S. assistance to help Panama assure the security of the Canal and its border with Colombia. U.S. assistance to Panama has increased in the past several years with the country receiving assistance under the Bush Administration's Andean Counterdrug Initiative (ACI) to help Colombia and its neighbors combat drug trafficking. The United States provided Panama with \$18.2 million in overall assistance in FY2004 and an estimated \$18.6 million in FY2005; the FY2006 request is for \$17.4 million.

U.S.-Panamanian negotiations for a bilateral free trade agreement began in late April 2004. Panama is seeking an FTA as a means of increasing U.S. investment in the country, while the Bush Administration has stressed that an FTA with Panama, in addition to enhancing trade, would further U.S. efforts to strengthen support for democracy and the rule of law. Since Panama has a service-based economy, it traditionally has imported much more than it exports to the United States. In 2004 the U.S. trade surplus with Panama was \$1.5 billion, with Panama exporting \$316 million in goods and importing \$1.8 billion in merchandise. (Also see *U.S.-Panama FTA* above.)

**CRS Products:**

CRS Report RL30981, *Panama: Political and Economic Conditions and U.S. Relations*, by Mark P. Sullivan.

CRS Report RL32540, *The Proposed U.S.-Panama Free Trade Agreement*, by J.F. Hornbeck.

## Peru

Peru under President Alejandro Toledo has been characterized by two seemingly contradictory trends: high economic growth and extremely low popularity of the president. President Toledo has been criticized as having weak leadership skills, his image has been damaged by personal issues, and his administration tarnished by corruption charges. Toledo's public support has remained low for two years, and was at about 10% in December 2004. The scandals have proved damaging to Toledo, who came to office as a reformer. As the April 2006 presidential elections draw nearer, it seems less likely that the Peruvian Congress will pursue the politically risky route of impeaching a democratically elected president, though it is still a possibility. There is no clear successor to Toledo. One leading candidate is Alan Garcia, whose presidency (1985-1990) was marked by hyper-inflation and a violent guerrilla insurgency, but whose Apra party is well-organized nationally. Other possible candidates include Valentin Paniagua, who as interim President (2000-2001) steered the country out of a political crisis, stabilizing the economy and organizing fair

elections. Lourdes Flores Nano, a former member of Congress, is likely to run again, but her center-right coalition, Unidad Nacional, is fragmented.

Toledo has presided over economic growth throughout his term, in contrast to four years of stagnation under his predecessors. Peru has been more stable economically than its neighbors. Under Toledo, Peru has exhibited one of the highest growth rates in Latin America, with an increased economic output of over 4% for 2003 and 2004, 5% for 2005, and nearly 6% expected for 2006. Some 54% of the population lives in poverty, and 43% are underemployed. Responding to nearly constant, widespread protests by teachers, farmers, and others for higher wages, Toledo has declared several states of emergency. Opposition in Congress — where no party holds a majority — has also limited the President's ability to push through economic reforms. Economy Minister Pedro Pablo Kuczynski said in March 2005 that the benefits of economic growth were filtering down to poorer sectors of society. The Toledo Administration has proposed a welfare program that would provide monthly subsidies to about 25% of the 6 million Peruvians living in extreme poverty.

Peru is a major illicit drug-producing and transit country. The United States and Peru signed a five-year cooperative agreement for 2002-2007 that links alternative development to coca eradication more directly than past programs have. After thousands of coca growers protested against forced coca eradication, the government and growers signed an agreement calling for the "gradual and fixed" reduction of coca leaf cultivation and restricted forced eradication. Peru is the second largest beneficiary, after Colombia, of the Andean Counterdrug Initiative. For FY2005, Congress allocated Peru \$62 million for interdiction, \$54.3 million for alternative development, and \$1 million for Foreign Military Financing funds in the FY2005 consolidated appropriations act (P.L.108-447). The act continues to prohibit resumption of a Peruvian air interdiction program until enhanced safeguards are in effect, with a 30 day notification to Congress required before resumption. The head of Peru's anti-narcotics agency recently stated that coca planting outstripped eradication in 2004 and that the local drug industry appears to be producing pure cocaine now rather than sending it to Colombia to be processed.<sup>17</sup> The Bush Administration's request for FY2006 counterdrug funds is \$54 million, an \$18 million reduction from current year funding.

The FY2005 consolidated appropriations act also contained several other provisions regarding Peru. Under Economic Support Funds, \$8 million was earmarked for Peru, and \$3 million for the Peru-Ecuador Peace initiative. The act also included \$8 million to implement a regional strategy for conservation in the Amazon basin countries, including programs to improve the capacity of indigenous communities and local law enforcement agencies in indigenous reserves.

Support for democracy and human rights also is a U.S. concern in Peru. U.S. initiatives include the provision of \$50 million over five years to support consolidating democratic reform, as Peru's Congress continues to investigate

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<sup>17</sup> "Drug Seizures up but Coca Production Excels Too," *Latin American Regional Report*, Andean Group, March 8, 2005.

corruption and abuses under the government of former President Alberto Fujimori, who fled the country in the wake of scandals in 2000, and his spy chief, Vladimiro Montesinos, who had ties to U.S. agencies.<sup>18</sup> Despite being barred from holding office until 2010 and being charged with ordering murder and torture, Fujimori says he plans to run for office in 2006. In February 2005, Peru's Constitutional Court upheld the resolution barring him from office.<sup>19</sup>

Peru, along with Colombia and Ecuador, is negotiating a U.S.-Andean free trade agreement. Some Members of Congress have expressed concern over unresolved trade disputes with Peru. The Bush Administration has warned that it may drop Peru (and Ecuador) from the agreement if those disputes are not resolved, rather than risk losing congressional approval of a trade agreement with Colombia.

**CRS Products:**

CRS Report RL32770, *Andean-U.S. Free-Trade Agreement Negotiations*, by Lenore Sek.

CRS Report RS20536, *Peruvian Elections in 2000: Congressional Concerns and Policy Approaches*, by Maureen Taft-Morales.

CRS Report RL32337, *Andean Counterdrug Initiative (ACI) and Related Funding Programs: FY2005 Assistance*, by Connie Veillette.

## Venezuela

Under the populist rule of President Hugo Chávez, first elected in 1998, Venezuela has undergone enormous political changes, with a new constitution, a new unicameral legislature, and even a new name for the country, the Bolivarian Republic of Venezuela. Although Chávez remained widely popular until mid-2001, his popularity eroded considerably after that, amid concerns that he was imposing a leftist agenda. In April 2002, massive opposition protests led to the ouster of Chávez from power for a brief period, but the military ultimately restored him to power. After months of negotiations, the Chávez government and the political opposition signed an agreement in May 2003 that ultimately led to an August 2004 presidential recall referendum. Chávez survived the vote convincingly by a margin of 59.3% to 40.7%, and his rule was further strengthened when his allies won a majority of gubernatorial and municipal posts in October 2004 elections. The country's next presidential elections are set for late 2006, and there is a strong chance that Chávez could win another six-year term. The Chávez government has benefitted from the rise in world oil prices, which has increased government revenues, and sparked an estimated economic growth rate over 17% for 2004.

<sup>18</sup> Kevin G. Hall, "CIA Paid Millions to Montesinos," *The Miami Herald*, August 3, 2001.

<sup>19</sup> "Fujimori Plans a 'Comeback Cola' in Peru," *Reuters News*, March 21, 2005.

Some observers are concerned that Chávez will use his political strength to push toward authoritarian rule. Human Rights Watch, a U.S.-based human rights organization, maintains that the Chávez government has dealt a severe blow to judicial independence by packing the Supreme court under a new law that expands the court from 20 to 32 justices. Critics of Chávez also fear that a new media law enacted in early December will permit the government to censor news reports of protests or government crackdowns. Other observers assert that freedom of the press and assembly thrive in Venezuela and doubt that the Chávez government would censor the press. They also maintain that allegations of threats to Venezuelan judicial independence are grossly exaggerated.<sup>20</sup>

The United States has traditionally had close relations with Venezuela, but there has been friction in relations with the Chávez government. A dilemma for U.S. policymakers has been how to press the Chávez government to adhere to democratic principles without taking sides in Venezuela's polarized political conflict. Since Venezuela is a major supplier of foreign oil to the United States (the fourth major foreign supplier in 2003, after Saudi Arabia, Canada, and Mexico), a key U.S. interest has been ensuring the continued flow of oil exports at a reasonable and stable price. Despite friction in U.S.-Venezuelan relations and despite past threats by President Chávez to stop selling oil to the United States, Venezuela has remained a steady supplier of oil to the United States, although some observers have expressed concerns about Chávez's desire to boost oil exports to China.

In 2005, Administration officials have voiced increasing concern about President Chávez. On March 9, 2005, Assistant Secretary of State for Western Hemisphere Affairs Roger Noriega testified to Congress that President Chávez's "efforts to concentrate power at home, his suspect relationship with destabilizing forces in the region, and his plans for arms purchases are causes of major concern." Noriega asserted that the United States "will support democratic elements in Venezuela so they can fill the political space to which they are entitled."<sup>21</sup> According to press reports, the Administration is currently involved in a major reassessment of policy toward Venezuela that could lead to a tougher U.S. policy toward Venezuela, including more assistance to foundations and business and political groups in Venezuela. Some observers have expressed concerns that a more aggressive approach could create further estrangement and tension in the bilateral relationship.<sup>22</sup>

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<sup>20</sup> Mark Weisbrot, "U.S. Criticism of Chávez Unfounded," *Miami Herald*, December 20, 2004.

<sup>21</sup> House International Relations Committee, Subcommittee on the Western Hemisphere, Hearing on "The State of Democracy in Latin America," Testimony of Roger F. Noriega, Assistant Secretary of State for Western Hemisphere Affairs, March 9, 2005.

<sup>22</sup> Pablo Bachelet, "U.S. Exploring Taming Chávez," *Miami Herald*, March 18, 2005; Juan Forero "U.S. Considers Toughening Stance Toward Venezuela," *New York Times*, April 26, 2005.



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